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24 October 1950

SUMMARIES OF TRENDS AND DEVELOPMENTS

USSR

1. Soviet-Iranian economic negotiations appear to be stalemated, at least temporarily, but it seems likely that the Soviet Union will continue its present conciliatory policy. The Tudeh Party has been instructed by the Cominform Journal to form a "bread people's front," a tactic which would probably not be very successful if the USSR were exerting strong pressure on Iran.

(Page 5)

2. The USSR is unlikely to use the recent East German elections as a basis for concluding an immediate unilateral peace treaty or treaty of mutual assistance with the German Democratic Republic (GDR). Although the USSR will retain its overt authority as an occupying power in Germany, it may use the "sovereign" GDR for minor harrassment of the Western Powers.

(Page 6)

3. The USSR is concerned over the drop in steel output in certain plants during the first period of 1950. Conferences have been held to discuss the decrease in steel output of a number of plants during the period January-April 1950. These conferences indicate at least a temporary slowing-up in Soviet expansion of the steel industry and this continued strain may represent a factor which may seriously limit the development of the national economy.

(Page 8)

4. The USSR continues to earn dollars at a high rate through exports of Satellite as well as Soviet goods to the US.

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In the first eight months of 1950, invoices totaling more than \$35 million were certified, to cover exports to this country.

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6. The much-heralded East German-Chinese trade agreement covering the year 1951 follows anticipated lines, calling for the exchange of German machinery, precision instruments and chemicals for Chinese raw materials, foodstuffs and metals. Further GDR propaganda may be expected on the blessings of this latest economic tie with the East, not only for themselves but for the West Germans, whom the GDR claimed to represent during the negotiations.

EASTERN EUROPE
HUNGARY

7. Efforts to control the growing resentment among the Hungarian people have included both threatening warnings and ostensibly conciliatory gestures on the part of the Government. Hardships resulting from the increasing demands of the Five Year Plan, aggravated by a severe drought, are intensifying

-2-

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the normal animosity of the people, which presents a difficult problem for the Communists.

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8. Communist ability largely to overcome the trade sanctions of individual Western countries by shifting business elsewhere is demonstrated by Hungarian-Western European trade. Drastic cuts by the U.K. and Sweden have been replaced by increased Hungarian business with other Western European countries and with the Orbit.

(Page 12)

POLAND

9. Two recent meetings of leaders of the Polish Communist and Peasant parties to discuss the problem of peasant resistance to collectivization demonstrate the seriousness of the problem. However, no indication was given that the Communists have any intention of relaxing their campaign for collectivization.

(Page 12)

RUMANIA

10. The population transfers Rumania has been carrying out quietly for the past several months will improve the Regime's security by reducing the size of some minorities and removing certain other alien elements from areas of strategic importance.

(Page 13)

SPECIAL ARTICLE

11. An estimated 25-30,000 former Greek guerrillas are currently within the Soviet Orbit and in Yugoslavia. Both the

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current activities of the former guerrillas in the Satellites and the internal tactics of the Greek Communist Party indicate that there is no intention to use the guerrillas for an early resumption of the Greek guerrilla war. They constitute, however, an important reservoir upon which to draw whenever the USSR should decide that conditions in the Balkans make feasible and desirable a renewal of the Greek war.

(Page 15)

-4-

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EASTERN EUROPE

U S S R

Conciliatory Soviet policy toward Iran
will probably continue

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Soviet-Iranian economic negotiations appear to be stalemated at least temporarily, but it seems likely that the USSR will continue its present conciliatory policy. In Iran, as in the rest of non-Communist Asia, the Kremlin may feel that the encouragement of friendly relations, and of the sentiment of "neutrality" and "Asia for the Asians" will most reduce western influence. At the same time, pro-Soviet propaganda will be directed against US-UK "intervention" and "economic exploitation" while subversive activity is continued.

The pro-Soviet Tudeh Party has been instructed by the Cominform Journal of 22 September to form a "broad people's front ... irrespective of political and religious views." This tactic is aimed at the encouragement of wide anti-government, anti-Shah, and anti-western elements who might not support such a policy if the USSR were exerting strong pressure on Iran. The Soviet Union has also initiated the establishment of a joint commission to settle long-standing boundary disputes. Economic negotiations will probably continue and may possibly lead to a trade agreement, if the USSR does not insist on political concessions.

The present deadlock results from the Soviet demand that its future representatives in the five northern provinces of Iran deal directly with individual merchants. Iran insists that the Soviet company deal only with a semi-public corporation which the Iranian Government will set up for this purpose. The USSR may be willing to yield on this issue in order to establish agents legally in northern Iran, since all its consulates there were closed in June 1949. The Soviet Union may even want enough Iranian products (hides, wool, cotton, rice,

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dried fruits) to agree, as a last resort, to a purely economic pact without political overtones.

Another point at issue between the two countries is the Soviet failure to return Iranian gold held in Moscow, although this was the original sine qua non named by Premier Razmara for the conclusion of trade negotiations. The USSR may well feel that it is more important to have the gold available as a bargaining point when the renewal of the Soviet-Iranian Fisheries Agreement arises. This 25-year agreement, which expires on 1 October 1952, gives the Soviet-dominated "joint company" a fishing monopoly in the Iranian Caspian, the source of almost all Russian caviar. More importantly, the company has the right to bring equipment and employees into Iran without Iranian inspection and, of course, its boats are free to operate all along the Iranian shore. This enables the USSR to maintain a watch on Iranian coastal operations and to smuggle agents and propaganda into Iran with little difficulty. For these reasons, the Soviet Union can be expected to use every tactic short of force, from conciliation to threats, to obtain the renewal of this agreement. (SECRET)

USSR unlikely to conclude early peace treaty or mutual assistance pact with GDR or to alter substantially Soviet legal status as German occupation power "A"

The Soviet Union is unlikely to use the recent East German elections as a basis for concluding an immediate unilateral peace treaty or treaty of mutual assistance with the German Democratic Republic (GDR). The USSR may, however, parallel Western action by declaring a termination of the state of war with Germany. It may also attempt to increase the prestige of the GDR by a withdrawal of Soviet overt controls from the East German economy and by permitting the Soviet diplomatic mission to the GDR to carry on the duties of the Soviet Control Commission. Although the USSR will retain its overt authority as occupying power, it may use the "sovereign" GDR to harass or embarrass the Western powers on

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relatively minor matters.

The conclusion of a unilateral peace treaty with the GDR would give the Soviet Union significant additional advantages, and would present the Kremlin with certain difficulties which it is under no compulsion to face at this time. The principal attraction of a peace treaty to the German people would be the withdrawal of Soviet occupation forces; Soviet and Communist declarations, which have always connected "earliest possible withdrawal of all occupation forces" to the conclusion of a peace treaty, show full realization of this. A unilateral peace treaty would not even give the USSR a worthwhile propaganda theme unless it were accompanied by an actual troop withdrawal. Present international tension, the Western decision to increase occupation forces in Germany, and the probability of limited West German rearmament make even a reduction of Soviet occupation forces distinctly improbable. A peace treaty, which would openly violate the Potsdam Agreement, would weaken considerably a basic Soviet propaganda theme -- the division of Germany is the result of Western violations of the Potsdam Agreement. A unilateral peace treaty would also be a violation of the UN declaration of 1 January 1942 and the Anglo-Soviet Alliance. While the USSR does not hesitate to break international agreements, Soviet preoccupation with specious legalism might possibly have a deterring effect. Furthermore, the Soviet Union may not desire at this time to erect a legal barrier to future four-power consideration of the German problem.

Recent statements by East German officials may have been designed to dispel the expectation of an early unilateral peace treaty or withdrawal of Soviet troops after the elections. Wilhelm Koenen, Chairman of the National Front in East Germany, stated in Taegliche Rundschau (official Soviet organ) that there should be no withdrawal of occupation troops without German unity, and implied that unity was also a prerequisite for a peace treaty. East German Foreign Minister Dertinger recently declared at a news conference that a peace treaty must be concluded only with an "undivided, peaceful, and democratic Germany," and that there was "no reason to deviate from the

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Potsdam Agreement." Furthermore, both the GDR and the Soviet Control Commission apparently felt some necessity to deny a fabricated unilateral peace treaty draft recently published in the West German press.

The USSR is under no compulsion to enter into a mutual assistance pact with the GDR in the near future. The current preponderance of Soviet military strength is sufficient to guarantee the security of East Germany. Furthermore, the Kremlin, realizing that the struggle for Germany will always entail a grave risk of global war, may wish to avoid a formal military commitment. The GDR, which has recently concluded a series of treaties with five European Satellites, apparently did not enter into mutual assistance pacts with any of them.
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USSR concerned over drop in steel output
during first period of 1950

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Several important conferences were held recently by the Soviet Minister of Metallurgy, A. M. Kuzmin, to discuss the decrease in steel production in a number of large plants during the period January to April 1950.

The Minister, although expressing satisfaction with the overall increase in production in 1949, criticized severely those plants which made poor showings in recent months. These plants represent approximately twenty percent of the total steel production in the USSR. The blame for the decrease was placed on the severe weather, (against which, the Minister charged, better preparation should have been made); on inefficient management, poor labor discipline, insufficient supplies, and poor quality of iron ore, coke and refractories.

The Director of a large Eastern plant, the Stalin Metallurgical Combine at Kuznetsk, described the difficulties facing his plant. Ordered to reduce dependence on Magnitogorsk ore (a 1250 mile haul), the plant had raised the percentage

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of local ores used from 32.6 percent in 1940 to 70.7 percent in 1949. Local ore is, however, of poor quality, and if the project for eliminating Magnitogorsk ore were to be completed, not only would the output of local ore have to be increased, but additional installations for concentrating and enriching it would have to be provided. These installations, the Director complained, were far behind the plan. Directors of several steel plants in the Ukraine complained that the iron-ore combine at Krivoi Rog had not fulfilled its quota since the beginning of the year, which was the chief reason for the decline in steel production of the combine. The Director of the Metallurgical Works at Novo-Tagil stated that his rolling mills had been idle for long periods because of shortages of crude steel. In the first four months of 1950 the deficiency of crude common steel needed to supplement local output was 4,548 tons and of special steels over 11,500 tons.

These reports indicate at least a temporary slowing-up in Soviet expansion of the steel industry, and this continued strain may represent a factor which may seriously limit the development of the national economy. (CONFIDENTIAL)

USSR continues to earn dollars through
sales of Satellite goods in US

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The USSR continues to earn dollars at a high rate through exports of Satellite as well as Soviet goods to the US. In the first eight months of 1950, invoices totaling more than \$35 millions were certified to cover exports to this country. Of that amount about \$21 million, or roughly 60 percent, represented Soviet goods. Outer Mongolian goods accounted for \$5.8 million, or more than 16 percent; Chinese, \$3.6 millions, over 10 percent; East German, \$3.2 millions, about 9 percent; and Bulgarian, \$1.6 million, or 4.5 percent.

Furs were the most important item, amounting to nearly \$13 million during the first seven months of the year. (They were not included in the invoices reported for the month

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of August.) Of this amount, Soviet furs represented \$10.5 million. Other important sources of dollars for the USSR were East German potash (\$3.2 million), Chinese bristles (\$2.9 million), and chrome and manganese ores (\$2.9 million).

A decided increase during June and July reflected the resumption of Soviet shipments of chrome and manganese to this country, in addition to invoices for more than \$4.1 million worth of furs and \$1.2 million worth of Bulgarian tobacco. The decrease in August of invoices certified to a total of \$2.1 million is due to the fact that the procedure of certifying the invoices of undressed furs was discontinued as of the first of that month.

In view of the fact that US exports to the USSR have dropped to an average of less than \$50,000 a month, it is possible that the Soviet Union will earn more dollars this year through exports to this country than in 1949, when its export balance of trade amounted to approximately \$36 million.
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EASTERN EUROPE

HUNGARY

Growing resentment among the people poses
problem for Hungarian Communists

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The Hungarian Government is renewing its efforts to allay the growing resentment among those elements of the population whose private interests are coming increasingly into conflict with the Regime and among the workers who are continually faced with demands for production increases and wage reductions. In some cases warnings, threats, and accusations and, in others, ostensibly conciliatory measures are used in an attempt to divert the population from their concern over the decreasing standard of living, the food shortages, and

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the greater sacrifices required to carry out the Five Year Plan. Communist spokesman Jozsef Revai's statement on 12 October that "the enemy has succeeded in influencing the less aware and disciplined sections of the population" is an admission of the concern felt by the Communists over the increasing animosity.

The current wave of rabid speeches, accusing the US of preparing to launch a war against the USSR and the Peoples Democracies, undoubtedly is directed at frightening the people and thus keeping them in line. Statements by Government spokesmen that the cold war could turn into a hot one at any moment are in sharp contrast to the severe prison sentences meted out to private citizens for war-mongering.

An attempt to gain the support of any neutral elements or waverers in the population is seen in the condemnation of "American Fascist brutality" and alleged US imperialist desire to stop Hungarian material progress. The fact that the top Government officials went to almost every important village for speeches in connection with the 22 October elections shows that the Communists are going out of their way to placate the peasants, since such campaigning certainly is not necessary to win the election. Support of the Government's peace program and Five Year Plan is offered as the only way out for the people, and the Regime's assertion that it is strong and stable, and consequently that opposition will be unable to prevail, is used to support the tenet of the inevitability of state triumph. The Catholic Church is cited as an example of a group which counted on some kind of internal or external catastrophe to save itself, but which finally had to succumb to the authority of the Regime.

A gesture toward appeasing the non-Communist population is seen in what appears to be modifications in the program to transform the administration into a one-party Government. The campaign to rid the Government of non-Communists was being energetically pushed until recently when a definite let-up occurred. Furthermore, in the propaganda

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buildup for the local council elections scheduled for 22 October, the emphasis has been on the non-Communist character of the majority of the candidates.

Also, a bid for worker support is seen in the system of preferential rationing recently introduced. Meanwhile, the serious food situation is glossed over and exaggeration of Yugoslav difficulties is used in attempt to placate the people.
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Unilateral Western sanctions have negligible effect on Hungarian trade

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Communist ability to overcome specific Western trade sanctions by shifting business elsewhere is demonstrated by Hungarian-Western European trade. Sweden, in reprisal for the December 1949 nationalization of foreign property, cut business with Hungary to 10-20 percent of that for 1949. The U.K., Hungary's largest western trading partner in 1949, has reduced commerce to 15-25 percent of that of last year principally as retaliation for the arbitrary arrest and detention of Voegler's assistant, Saunders.

Soviet Orbit and alternate Western sources have readily filled the gap in commodities and value caused by cessation of Swedish and U.K. shipments. Machine tools and other industrial equipment which these countries supplied in 1949 now come from Italy, Austria, and Western Germany. Accordingly, it is again apparent that unless western trade restrictions are universally applied, individual Satellite states are largely unaffected. (CONFIDENTIAL)

POLAND

Peasant intransigence disturbs Communists

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Two meetings have been held recently between the

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Politburo of the United Polish Workers Party, Communist, (PZPR) and the Presidium of the United Peasants Party (ZSL) to discuss the problem of peasant resistance to collectivization. During the past few months there have been reports of peasant uprisings and violence in various parts of Poland coinciding with announcements in the press of the formation of new production cooperatives. If it was necessary to call these two meetings, it is probable that the Communists are meeting with even more peasant resistance than has been reported.

The ZSL, which is Communist dominated, is the instrument through which the Communists deal with the peasant population. At the meetings discussions were devoted to the topic of cooperation between the two parties on the basis of the principles "emanating from the worker-peasant alliance while building (Poland's) Socialist foundations" i.e., the ZSL was told how to carry out PZPR directives more effectively. The ZSL admitted its realization that it must take a more militant attitude toward the peasantry's ideological education and carry on an even more relentless fight against the Kulaks. To do this the small and medium peasants would be urged to band together against the Kulaks and eliminate them since they are the major class enemies of the peasants. This has been a traditional Communist tactic for overcoming resistance to collectivization.

The nature of the matters discussed at the two meetings clearly indicates that the Communists view the condition of internal security in rural areas as an increasingly serious problem. Also, it seems clear that the Communists have no intention, as yet, of relaxing their stepped-up campaign for collectivization. (SECRET)

RUMANIA

Population transfers in Rumania intended
to strengthen country

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The population transfers Rumania has been carrying

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out quietly for the past several months will reduce the size of some minorities and remove certain other alien elements from areas of strategic importance. Since mid-summer the Communist regime has reduced Rumania's Jewish minority some 20,000 by fostering the emigration of Jews whose contribution to the development of the country would be small -- the aged, the infirm and the very young. Easing of emigration restrictions on the Greek minority last May prompted a similar mass withdrawal. Since controls were eased, about 4,000 of Rumania's 15,000 Greeks have returned to Greece, and some 5,000 more desire to go. The Greeks in Rumania were, for the most part, traders and small businessmen living in Bucharest, the Danube ports and Constanza, so that their exodus will remove an alien element from the port cities and from the capital, as well as reduce a minority composed largely of class enemies. It is also possible that the Rumanian Communists have infiltrated among the emigrating groups some of the Greek Communists who entered Rumania by way of Albania in the summer of 1949 after the debacle of the Greek guerrilla war. Suspicion of such a scheme may be partly responsible for the stringent controls imposed on the returnees by Greek authorities.

The proposal by the Regime to remove Italian and Turkish aliens from Constanza, which is a Soviet military headquarters, and the demand that an American citizen in Rumania leave the town of Ghergani (on a rail line northwest of Bucharest) are also probably aspects of a comprehensive program effectively to screen sea and land traffic from hostile Western eyes. These various measures represent the latest phase in the gradual process of strengthening the security of the Rumanian Communist regime through the imposition of external controls on elements of the population deemed unreliable. Within their limited scope, they will probably prove effective, especially in event military preparations are accelerated. They do not, however, touch at the heart of Rumania's security problem, which is the bitter resentment of the mass of the population, regardless of their national origin, toward Rumanian Communism and the USSR. (SECRET)

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SPECIAL ARTICLE

Current status of Greek guerrillas

An estimated 25-30,000 former Greek guerrillas are currently within the Soviet Orbit and in Yugoslavia. In addition, there are approximately 28,000 Greek children and an indeterminate number of Greek refugees. These are reported to be distributed among the various Eastern European countries as follows:

<u>COUNTRY</u>	<u>GUERRILLAS</u>	<u>CHILDREN</u>
Albania	2,000	2,000
Bulgaria	8-10,000	2,000
Czecho	3-5,000	2,235
Hungary	3,000	3,000
Poland	3-4,000	3,000
Rumania	3,000	3,800
USSR	5-10,000	—
Yugoslavia	5,000	9,500
East Germany	—	362
	32-42,000	25,897

(Numerous reports of the movement of guerrillas from one country to another make it impossible to determine the accuracy of these estimates, for this reason there is duplication in the figures tabulated above.)

As they arrived in the Satellites, the Greek guerrillas were settled in comfortable camps where political

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indoctrination was provided. Those capable of it were set to work on state farms and in industry. Some of these camps have since been closed but most of the guerrillas are probably still living in these temporary homes. Reliable reports indicate that former guerrillas of military age in Poland and Czechoslovakia are being given military training and instruction in the use of various weapons, artillery and tanks. A select few attend special schools supervised by Soviet officers where weapons, tanks, and planes are of Soviet manufacture. Small groups are reportedly being given specialized training in preparation for returning to Greece to assist in rebuilding the Communist Party and its network.

No information is available as to the type of instruction given to guerrillas who arrived in Rumania and Hungary except for reports that some are stationed in Cominform camps established to train saboteurs and propagandists for use in Yugoslavia. However, it is believed that their regimen is similar to that in Czechoslovakia and Poland.

Some 10,000 guerrillas were removed to the Tashkent area in USSR late in 1949. These guerrillas reportedly are not organized under military discipline but are being absorbed into economic life of the area. Many of these guerrillas are probably wounded and over-age men no longer adaptable to Soviet purposes in the Balkans.

Both the current activities of the former guerrillas in the Satellites and the internal tactics of the Greek Communist Party indicate that there is no intention to use the guerrillas for an early resumption of the Greek guerrilla war. They constitute, however, an important reservoir upon which to draw whenever the USSR should decide that conditions in the Balkans make feasible and desirable a renewal of the Greek war. Some, especially the Slavo-Macedonians, could be utilized as guerrillas in Yugoslavia. There is no evidence, however, that the Kremlin intends to use any, except for small especially trained groups for political and subversive activities, in the immediate future either in Greece or Yugoslavia. (SECRET)

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